

Message Text

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R 131835Z JAN 77
FM USMISSION NATO
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INFO CSAF WASHDC
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CINCUSAFE
USCINCEUR
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AFSC ANDREWS AFB MD
ESD LG HANSCOM FLD MA
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ALL NATO CAPITALS 6692

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SECDEF FOR DEPSECDEF, DDR&E, OASD/I&L/ISA/C/GC AND DSAA.
SECSTATE FOR EUR/RPM. CSAF FOR RD/XO/RDP/RDPW/CVAW/LG/LGPS/ACB.
OSAF FOR SAFRD/SAFIL/SAFFM/SAFGC/SAFIA. ESD FOR YW/YWT.
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E.O. 11652: GDS
TAGS: NATO OCON AWACS MILI
SUBJ: NATO AEW - MEETING OF FINANCIAL EXPERTS

SUMMARY: THE FIRST MEETING OF NATO AEW NATIONAL FINANCIAL
EXPERTS RESULTED IN PRESENTATION OF POSITIONS, AIRING OF PROB-
LEMS, AND ADDITIONAL PROPOSALS. DISCUSSIONS CENTERED ON THREE
MAJOR AREAS OF THE PROGRAM: COST SHARES (BOTH PERCENTAGES
AND DOLLAR TOTALS); ALL ASPECTS OF PROGRAM SCOPE;
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AND ANNUAL FUNDING SCHEDULES FOR BOTH ACQUISITION AND
OPERATIONS AND SUPPORT (O&S). SOME PROGRESS WAS
MADE, BUT A PROGRAM ACQUISITION FUNDING SHORTFALL OF
ABOUT \$500M REMAINS. ASYG LABERGE RECOMMENDED FURTHER BILATERAL
NEGOTIATIONS BETWEEN THE US AND FRG TO RESOLVE MUTUAL DIFFER-
ENCES. MORE FORTHCOMING INSTRUCTIONS BY GOVERNMENTS OF HALF-
SHARE NATIONS ARE ESSENTIAL. END SUMMARY.

1. GENERAL. THE FIRST MEETING OF NATO AEW NATIONAL
FINANCIAL EXPERTS TOOK PLACE AT NATO HEADQUARTERS ON

JANUARY 11-12, 1977. ALL NATIONS EXCEPT FRANCE AND ICELAND WERE REPRESENTED. MR. DALE R. BABIONE, DEPUTY ASST SECY OF DEFENSE FOR INSTALLATIONS AND LOGISTICS, LED THE US DELEGATION. ASYG (DEFENCE SUPPORT) LABERGE CHAIRED THE MEETING, AND NATO AEW PROGRAMME OFFICE (NAPO) PROGRAM MANAGER AIR CDRE SCRIMGEOUR AND DEPUTY PROGRAM MANAGER COL. EAGLET PROVIDED BRIEFINGS ON THE PROGRAM AND ITS FINANCIAL ASPECTS.

2. COST SHARES. BY LETTER, FRANCE ANNOUNCED THAT NO ASSUMPTIONS SHOULD BE MADE CONCERNING ITS LONG-TERM PARTICIPATION. ALTHOUGH SOME NATIONS (US, CANADA, GREECE, LUXEMBOURG, NORWAY AND UK) CONSIDERED THEIR PERCENTAGE SHARES UNDER THE COMPROMISE FORMULA ACCEPTABLE, OTHERS (FRG, BELGIUM, PORTUGAL, TURKEY, DENMARK, ITALY, NETHERLANDS) WANTED EITHER REDUCTIONS IN SHARE SIZE OR SPECIAL COMPENSATION IN THE FORM OF OFFSETS OUTSIDE THE PROGRAM. THE CANADIAN REP SUGGESTED USING THE REGULAR INFRASTRUCTURE BUDGET, GIVE THE SPECIAL PROGRAM INFRASTRUCTURE BUDGET, FOR CALCULATION OF THE FORMULA; THIS WOULD RAISE THE US SHARE FROM ABOUT 26.9 PERCENT TO 29.7 PERCENT, OR FROM \$667. TO \$736M. THE FRG REP WANTED ITS SHARE CLOSER TO THAT OF THE UK, AND, SUGGESTED THAT THE US SHARE SHOULD BE RAISED TO 30 PERCENT. THE US REP POINTED OUT THAT, IF ALL US CONTRIBUTIONS WERE APPROPRIATELY CREDITED, PRORATION OF PRIOR

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R&D AND OTHER FACTORS WOULD SHOW THAT EFFECTIVE US CONTRIBUTION WAS ALREADY ABOUT 40 PERCENT, AND THAT HE DOUBTED CONGRESS WOULD RESPOND FAVORABLY TO A REQUEST FOR A LARGER US CONTRIBUTION.

3. PROGRAM ASPECTS.

A. FEES. ALTHOUGH THE US REP STATED THAT THE 4 PERCENT RESEARCH AND DEVELOPMENT (R&D) SURCHARGE WAS MINIMAL AND WAS INCLUDED IN DOD TESTIMONY TO CONGRESS, COMMENTS BY MOST OTHER REPS INDICATED THAT THEY STILL EXPECTED IT TO BE WAIVED AS A MATTER OF COURSE FOR NATO. US REP ALSO POINTED OUT THAT MOST ALLIED NATIONS CHARGE SIMILAR OR GREATER R&D RECOUPMENT FEES. THERE WAS GREATER ACCEPTANCE AMONG OTHER REPS OF THE REQUIREMENT FOR THE 2 PERCENT FOREIGN MILITARY SALES (FMS) ADMINISTRATIVE FEE.

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B. INDUSTRIAL COLLABORATION. THE US REP SAID THAT THE INDUSTRIAL COLLABORATION PACKAGE IS THE SINGLE MOST EXPENSIVE FACET OF THE PROGRAM, ALTHOUGH IT DOES NOT ADD TO THE CAPABILITY OF THE FORCE. THE CANADIAN REP SAID COLLABORATION IS NOT CRITICAL TO CANADIAN PARTICIPATION, ALTHOUGH IT WOULD BE POLITICALLY USEFUL. THE UK REP CONSIDERED COLLABORATION VERY IMPORTANT TO THE MINISTRY OF DEFENSE IN DEFENDING THE PROGRAM BEFORE PARLIAMENT. THE GERMAN REP NOTED THAT HE LIKED COLLABORATION BUT DID NOT LIKE THE COST PENALTIES, AND SUGGESTED THE POSSIBILITY OF OTHER OFFSETS. BELGIUM, ITALY, NETHERLANDS AND DENMARK INDICATED AT DIFFERENT TIMES THAT ADDITIONAL COMPENSATION OR OFFSETS MIGHT FACILITATE THEIR PARTICIPATION IN ACQUISITION.
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C. PROGRAM SCOPE. LABERGE INTRODUCED CONFIGURATION AND FORCE SIZE AS OPTIONS REQUIRING EXAMINATION. NAPO THEREUPON PRESENTED CONFIGURATION OPTIONS AND FORCE SIZE CHANGES WHICH COULD REDUCE PROGRAM COSTS. NO NATION APPEARED WILLING TO ACCEPT REDUCTION IN FORCE SIZE -- PARTICULARLY THE UK, ITALY, AND TURKEY. NEITHER THE UK NOR GERMANY WAS READY TO ACCEPT DEFERRAL OF ELECTRONIC SUPPORT MEASURES (ESM) OR AUTOMATIC TRACK INITIATION/INCREASED TRACK CAPACITY (ATI/ITC) ENHANCEMENT, RESPECTIVELY. HOWEVER, LABERGE SUGGESTED THAT THESE CONFIGURATION CHANGES BE ADDRESSED BILATERALLY. MGEN SKANTZE (THE US AWACS PROGRAM DIRECTOR) INDICATED THAT THILE HE HAD CONFIDENCE IN BASIC AWACS COST DATA, THERE ARE SOME RISKS ASSOCIATED WITH THE NATO ENHANCEMENTS, PARTICULARLY WITH THE AUTOMATIC TRACK CAPABILITY.

HE ALSO NOTED THAT A \$40M REDUCTION MIGHT BE REALIZED AS A RESULT OF NEGOTIATIONS WITH THE CONTRACTOR.

D. IN SUMMARY, LABERGE NOTED THAT:

(1) THE REQUIREMENT BY MAJOR NATIONS THAT ALL ALLIES PARTICIPATE IN ACQUISITION WAS CLEARLY NOT BEING MET.

(2) GIVEN THE POSITIONS EXPRESSED, THERE SEEMED TO BE A PROGRAM FUNDING SHORTFALL ON THE ORDER OF \$500M.

(3) THE US AND FRG SHOULD WORK OUT THEIR PROBLEMS ON SHARES AND OTHER ISSUES.

4. ANNUAL FUNDING SCHEDULES. THREE PROFILES WERE PRESENTED: A US-UK FRONT-LOADED PROFILE (WHICH THE UK AND THE US CONSIDERED IMPRACTICAL, BUT WHICH WAS PREFERRED BY MOST OTHER NATIONS); AN EVEN-PAYMENT PROFILE (PREFERRED BY THE US, UK AND CANADA); AND A MODIFIED CONFIDENTIAL

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FIED EVEN-PAYMENT PROFILE (PREFERRED BY NO ONE). THE BELGIAN REP HAD NO INSTRUCTIONS. THE FRG REP DISPLAYED A PREFERENCE FOR LATER FUNDING BY THE FRG, BUT INDICATED SOME FLEXIBILITY. MANY OF THE HALF ACQUISITION-SHARE NATIONS SUGGESTED THAT THEY SHOULD ALSO PAY HALF-SHARES OF O&S COSTS -- WHICH WAS CONSIDERED UNACCEPTABLE BY THE US AND OTHER FULL-SHARE NATIONS. GERMANY, NETHERLANDS, AND NORWAY PREFERRED TO MILITARY BUDGET FORMULA OVER THE COMPROMISE FORMULA (PREFERRED BY ITALY) AS THE BASIS FOR O&S COST-SHARING.

5. OTHER ITEMS:

A. THE UK REP MENTIONED SEVERAL TIMES THE IMPORTANCE OF AN EARLY PROGRAM DECISION, AS STATED BY MINISTER MULLEY AT THE DECEMBER MINISTERIAL.

B. THE CANADIAN REP SUGGESTED THAT:

(1) THE US PAY AN ADDITIONAL \$68M ABOVE ITS COMPROMISE FORMULA SHARE (\$667M), WITH THE STIPULATION THAT THE 4 PERCENT R&D SURCHARGE WOULD THEN BE PAID WITHIN THE PROGRAM. COMMENT: UNDER THE COMPROMISE FORMULA THE US WOULD PAY ABOUT \$18M OF THIS \$66M R&D SURCHARGE. END COMMENT.

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(2) THE COSTS OF GROUND ENVIRONMENT INTERFACE (\$105M) AND FACILITIES (\$55M) BE REMOVED FROM THE PROGRAM AND PUT INTO THE POLITICALLY ACCEPTABLY INFRA-STRUCTURE BUDGET (WHICH WOULD REQUIRE AUGMENTATION), AND THAT THE COSTS OF PROGRAM ADMINISTRATION BY THE NAPO (\$39M) BE PLACED IN THE MILITARY BUDGET, FOR A NET SAVINGS TO THE PROGRAM ACCOUNT OF \$199M. COMMENT: NAPO WILL PREPARE PAPERS ON THE ABOVE AND ON OTHER SUGGESTIONS FOR REALLOCATING PROGRAM COSTS. END COMMENT.

C. THE CANADIAN REP ALSO SUGGESTED THAT NATO'S CLAIM AGAINST FRANCE, OUTSTANDING SINCE 1967 FOR LOSS OF INFRASTRUCTURE FACILITIES IN FRANCE, MIGHT BE SETTLED BY ALLOCATING ALL OR PART OF THESE FUNDS TO THE PROGRAM;
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LABERGE STATED HE WOULD PURSUE THIS MATTER WITH SYG LUNS.

D. NEW STATEMENT OF UNDERSTANDING (SOU). AIR CDRE SCRIMGEOUR DISCUSSED THE PROPOSED NEW SOU, DESIGNED TO CONTINUE PREPARATORY PHASE FUNDING BY RAISING THE CURRENTLY AVAILABLE \$9.4M TO \$15M, BY SUBSCRIPTIONS FROM OTHER NATIONS. THE GERMAN REP INDICATED THAT HE COULD NOT ASK THE BUNDESTAG FOR MORE MONEY BEFORE PROGRAM APPROVAL AND THAT, IN VIEW OF THE CLEAR DELAYS, IT WOULD BE BETTER FOR THE PROGRAM TO SLIP THE FIRST NATO AIRCRAFT FROM PRODUCTION NO. 22 TO NO. 23.

6. DATE AND PLACE OF NEXT MEETING: NATO HEADQUARTERS,
JANUARY 26 AND 27, 1977. STRAUSS-HUPE

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